

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BLUEGRASS GAS)
SALES, INC. FOR AN ADJUSTMENT OF RATES) CASE NO. 98-305
PURSUANT TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On June 8, 1998, Bluegrass Gas Sales, Inc. (Bluegrass) filed its application pursuant to 807 KAR 5:076 for a rate adjustment. Bluegrass determined its pro forma revenue requirement to be \$252,927, an increase of \$50,690 over its normalized revenues of \$202,237. In July 1998, Commission Staff began a limited review of Bluegrass s financial records and issued a Staff Report on October 27, 1998. The report recommended a revenue requirement of \$218,382 or a \$34,755 increase over Staff s normalized revenues of \$183,627. By this Order, the Commission denies the rate adjustment proposed by Bluegrass and establishes new rates that will generate gross annual revenues of \$221,928 or a \$38,301 increase over the Staff s normalized revenues.

DISCUSSION

By Order dated October 27, 1998, Bluegrass was advised to file comments on the Staff Report or to request a hearing or informal conference within 20 days of the date of the Order or the case would stand submitted to the Commission for decision. Bluegrass filed its response to the Staff Report, with comments, on November 16, 1998. While Bluegrass accepted the rates and revenue increase proposed in the Staff Report,

it offered comments and additional documentation relating to five issues raised in the Staff Report. However, Bluegrass stated it was not requesting an informal conference or hearing. The Commission addresses in this Order only those issues raised by Bluegrass.

Other Gas Supply Expense. Bluegrass proposed to increase this expense by \$1,250 to reflect the estimated cost of odorant. In its report, Commission Staff found that Bluegrass had not incurred any expense for odorant during the test period and that Bluegrass had failed to provide any supporting evidence for the adjustment. Commission Staff, therefore, recommended that the proposed adjustment be denied. In its response, Bluegrass, while not expressly objecting to Commission Staff's recommendation, contends that Commission Staff failed to request any evidence on this issue or identify any deficiency with the proposed adjustment.

Based upon our review of the record, the Commission finds that Commission Staff's recommendation should be accepted. Bluegrass has the burden of proof to support all rate case adjustments. KRS 278.190(3). Bluegrass does not dispute the lack of any test year expense recorded for odorant. In its application, Bluegrass identifies the proposed adjustment as a projection. Since the proposed adjustment is merely a projection, Bluegrass has the affirmative duty to provide evidence to support its proposal. Such evidence could have been submitted in its response to the Staff Report. Having failed to make such submission, Bluegrass's suggestion that it did not have adequate notice of any deficiency is devoid of any merit.

Office Supplies and Expenses. In its application Bluegrass proposed an adjustment of \$1,917 to reflect the amortization of new computer billing software. The

Staff Report recommended that the proposed adjustment be denied since the computer software has not yet been purchased nor has its cost been documented. Bluegrass notes that its proposed adjustment was denied because the Staff Report recommended the denial of Bluegrass's customer growth adjustment. Bluegrass contends that the proposed software will be needed to meet the demands of customer growth.

Based upon our review of the record, the Commission adopts the Staff Report's recommendation. The Staff Report recommendation was not based on the recommended rejection of the customer growth adjustment, but because Bluegrass had neither purchased nor installed the new software. Bluegrass has failed to produce any evidence to demonstrate the purchase of the software or the software's costs.

Injuries and Damages. The Staff Report recommended the denial of a proposed expense for workers compensation coverage, because it appeared that Bluegrass had not actually incurred the expense. In its response, Bluegrass attached a copy of its canceled check that verified that the coverage was in place. The Commission finds that Bluegrass has secured its workers compensation coverage for an annual cost of \$855 and that its revenue requirement should reflect this expense.

Regulatory Commission Expense. The Staff Report had recommended that Bluegrass's proposed rate case expense amortization be denied due to the lack of supporting documentation. In its response to the Staff Report, Bluegrass has submitted two invoices for accounting services totaling \$3,900 and one invoice for legal services for \$4,155. Based upon these submittals, the Commission finds that Bluegrass's revenue requirements should recognize the first year of a three-year amortization of the

actual rate case expenses. The first year amortization of the total allowed rate case expenses of \$8,055 is \$2,685.

Refinanced Loan. The Staff Report alleged that Bluegrass failed to comply with KRS 278.300(1) by issuing new evidences of indebtedness without Commission authorization. Bluegrass disputes these allegations and requests their deletion from the Staff Report. After reviewing the Staff Report and Bluegrass's response, the Commission finds that a formal proceeding to investigate the alleged violation of KRS 278.300(1) should be opened. The record in this proceeding should be incorporated by reference into this new proceeding.

Summary. The Commission finds that Bluegrass's revenue requirements, as recommended by the Staff Report, should be increased by \$3,540, to reflect the cost of workers compensation coverage and to recognize the first year amortization of its rate case expenses. The Commission further finds that, applying the 1998 PSC assessment rate of .001828 to the \$3,540 increase, requires an additional \$6 increase in the PSC Assessment expense recommended in the Staff Report.

CONCLUSION

The Commission, after considering the record and being otherwise sufficiently advised, finds that:

1. The findings and recommendations contained in the Staff Report, except those that directly conflict with the Commission's findings herein, are supported by substantial evidence, are reasonable, and should be adopted as the findings of the Commission.

2. Bluegrass's total revenue requirement, based upon test period expenses as adjusted for known and measurable changes, is \$221,928.

3. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for Bluegrass and will produce gross annual revenues of \$221,928 for gas service. These rates will allow Bluegrass sufficient revenues to meet its operating expenses, service its debt, and provide for future equity growth.

4. The rates proposed by Bluegrass will produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report, except those that directly conflict with the Commission's findings herein, are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates proposed by Bluegrass in its application are hereby denied.

3. The rates contained in Appendix A are approved for service rendered by Bluegrass on and after the date of this Order.

4. Within 30 days of the date of this Order, Bluegrass shall file with the Commission its revised tariff setting out the rates approved herein.

Done at Frankfort, Kentucky, this 7th day of January, 1999.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

Done at Frankfort, Kentucky, this

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 98-305 DATED JANUARY 7, 1999

The following rates and charges are prescribed for the customers in the area served by Bluegrass Gas Sales, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Rates:

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total Rate</u>
All Mcf (Minimum Bill)	\$ 4.6137	\$3.8876	\$ 8.5013